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SUBJ: NEW AMERICAN INVESTMENTS

1. SUMMARY. NEW INVESTMENTS BY DANA CORPORATION ILLUSTRATE SALIENT POINTS FACED BY BOTH INDIAN GOVERNMENT AND FOREIGN INVESTORS IN CONSIDERING NEW OR EXPANDED INVESTMENTS HERE. THEY HIGHLIGHT BOTH OPPORTUNITIES AND PROBLEMS FOR US INVESTORS. CONSUMMATION OF SUCH VENTURES ESSENTIALLY ON GOI TERMS MAY ALSO INTENSIFY PROBLEMS SOME EXISTING FIRMS FACE IN THEIR EFFORTS TO RETAIN MAJORITY EQUITY INTERESTS. END SUMMARY.

2. ON SUNDAY, JANUARY 26, I FLEW TO NASIK ON FLIGHT CHARTERED BY LOCAL PARTNERS OF DANA CORPORATION OF TOLEDO, OHIO, TO PARTICIPATE IN CEREMONIES INAUGURATING TWO NEW JOINT VENTURES OF DANA. THE ANAND GROUP IS THE LOCAL PARTNER IN ONE OF THESE VENTURES WHICH REPRESENTS A SUBSTANTIAL EXPANSION, BUT AT SAME TIME A DILUTION OF EQUITY, IN AN EXISTING DANA INVESTMENT HERE. THE PREVIOUS DANA-ANAND COLLABORATION HAD BEEN CONFINED TO DANA'S LINE OF VICTOR GASKETS AND ASSOCIATED PRODUCTS. THE NEW VENTURE WILL INTRODUCE DANA'S PERFECT CIRCLE LINE OF PISTON

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RINGS INTO INDIA. AS THIS REQUIRES A SUBSTANTIAL INCREASE IN

CAPITALIZATION, THE LOCAL JOINT VENTURE HAS BEEN REFORMED INTO A NEW COMPANY, PERFECT CIRCLE VICTOR, IN WHICH DANA WILL STILL HAVE THE LARGEST SINGLE EQUITY INTEREST BUT ITS PREVIOUS EQUITY WILL BE REDUCED FROM 55 PERCENT TO 35 PERCENT, WHICH WILL STILL BE THE LARGEST SINGLE EQUITY HOLDING. ANAND'S INTEREST WILL BE SMALLER AND THE REMAINDER OF THE STOCK WILL BE WIDELY DISPERSED IN PUBLIC HOLDINGS. THIS METHOD OF FINANCING HAS THE ADVANTAGE OF REDUCING NEED FOR FOREIGN EXCHANGE TRANSFER TO INDIA BY DANA. WE UNDERSTAND LATTER NOT PUTTING IN MUCH NEW CAPITAL, PROBABLY LESS THAN \$1 MILLION.

3. THE NEW PERFECT CIRCLE VICTOR PLANT, DANA CLAIMS, HAS THE MOST SOPHISTICATED TECHNOLOGY FOR MAKING PISTON RINGS BETWEEN ITALY AND JAPAN. IT FEATURES A SPIN-CASTING FOUNDRY AND HIGH-VOLUME, ELECTRONICALLY-CONTROLLED PRODUCTION LINE FOR CUTTING, GRINDING, AND POLISHING PISTONS. VOLUME LIMIT 15 TO 20 MILLION RINGS PER YEAR.

4. THE SECOND DANA VENTURE IN NASIK IS AN AUTOMOTIVE DRIVE SHAFT AND CRANK CASTING PLANT BEING ERECTED IN COLLABORATION WITH THE TURNER HOARE COMPANY (ONE OF THE MAHINDRA AND MAHINDRA GROUP). UNTIL NOW DANA'S ARRANGEMENTS WITH TURNER HOARE WERE LIMITED TO TECHNICAL COLLABORATION IN THE PRODUCTION OF CLUTCH ASSEMBLIES, BUT IN THE NEW COMPANY DANA WILL AGAIN BE THE LARGEST EQUITY HOLDER WITH 35 PCT. TURNER HOARE WILL HOLD 25 PCT, WHILE ITS PREVIOUS PARTNER THE TATA INVESTMENT GROUP WILL HOLD 9 PCT WITH THE REMAINDER OF THE STOCK WIDELY DISPERSED AMONG THE INDIAN PUBLIC. TURNER HOARE SAYS THE GOVERNMENT DID TRY TO INSIST ON AN EXPORT COMMITMENT AS A CONDITION FOR APPROVING THE NEW INVESTMENT BUT YIELDED WHEN TURNER HOARE DEMONSTRATED THAT NO ONE COULD REASONABLY UNDERTAKE SUCH A RESPONSIBILITY FOR ORIGINAL EQUIPMENT ITEMS IN THE AUTOMOTIVE FIELD UNTIL PRODUCTION AND MARKETING CAPABILITY DEMONSTRATED. THESE ASSURANCES CAN COME ONLY AFTER PRODUCTION IS INITIATED.

5. CONGEN CONSIDERS THESE VENTURES WORTHY OF SPECIAL NOTE BECAUSE THEY POINT UP ISSUES THAT GO TO THE HEART OF PROBLEMS THAT POTENTIAL FOREIGN INVESTORS FACE HERE. INDIAN GOVERNMENT OFFICIALS WELCOMED THEM ESPECIALLY BECAUSE THEY CONFORM LIMITED OFFICIAL USE

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CLOSELY TO INDIA'S DESIRE TO LIMIT FOREIGN INVESTORS TO MINORITY EQUITY ROLES. THEY WILL ALSO BE USED BY INDIAN OFFICIALS AS EXAMPLES OF POSSIBILITIES FOR ATTRACTING FIRST CLASS FOREIGN CAPITAL TO INDIA ON THE TERMS THAT THE INDIAN GOVERNMENT HAS SET FORTH. AT THE SAME TIME, EXISTING AMERICAN INVESTORS HERE NOW HOLDING MAJORITY INTERESTS, ARE LIKELY TO FIND THAT THE INDIAN GOVERNMENT WILL POINT TO THE NEW VENTURES AS DEMONSTRATIONS THAT IT IS NOT NECESSARY FOR THESE COMPANIES TO CONTINUE TO EXIST

ON MAJORITY EQUITY POSITIONS.

6. THE DANA EXECUTIVES WHO FLEW IN IN THEIR OWN G II, AND WERE LED BY DANA BOARD CHAIRMAN REN MCPHERSON, WENT TO CONSIDERABLE TROUBLE TO EXPLAIN IN SEPARATE MEETINGS TO BOTH AMERICAN BUSINESS COMMUNITY AND THE INDIAN BUSINESS COMMUNITY WHY THEY DID BUSINESS IN FOREIGN LANDS ON SUCH TERMS. THEY POINTED OUT THAT PRACTICALLY ALL OF THEIR FOREIGN VENTURES OF WHICH THERE ARE MORE THAN 100 FACILITIES INVOLVED ONLY A MINORITY PARTICIPATION ON THEIR PART. THEY CLAIM THAT THIS REFLECTS THE TREND OF THE TIMES WHILE STILL SATISFYING THEIR MAJOR GOALS IN INVESTMENT POLICY. FIRST THEY WANT TO EXPAND THEIR SHARE IN FOREIGN MARKETS WHERE THEY HOLD ON A 10 PCT POSITION IN THE AUTOMOTIVE SUPPLIES FIELD WHILE THEY HOLD A BETTER THAN 50 PCT POSITION IN THE AMERICA MARKET FOR THEIR PRODUCTS. THEY AIM TO BRING THEIR FOREIGN MARKET SHARE UP TO LEVEL THEY NOW HOLD IN THE AMERICAN MARKET AND THEY ALSO POINT OUT THAT THE AMERICAN AUTOMOTIVE MARKET IS ESSENTIALLY SATURATED WHILE THE FOREIGN MARKET IS GROWING. AS LONG AS THERE ARE PROFITABLE OPPORTUNITIES ABROAD THEY SAY THEY ARE READY TO EXPAND THEIR FOREIGN OPERATIONS EVEN ON MINORITY EQUITY BASIS. THEY, OF COURSE, ARE CONFIDENT THAT THEIR TECHNOLOGICAL LEAD WILL ENABLE THEM TO REMAIN THE DOMINANT PARTNER IN THEIR FOREIGN VENTURES EVEN THOUGH THEY HOLD ONLY A MINORITY INTEREST. THEY DO INSIST, HOWEVER, THAT THEY HAVE THE LARGEST SINGLE SHARE IN ANY VENTURE THAT THEY ENTER. THEY REGARD A DISPERSION OF SHARES AMONG THE PUBLIC AS A GOOD DEVICE TO RESTRICT CHAUVINISTIC TENDENCIES ON PART OF HOST GOVERNMENTS AND PARTNERS.

7. SOME OF THE LOCAL US BUSINESS CRITICS OF THE INDIAN GOVERNMENT'S INVESTMENT POLICIES POINTED OUT TO DANA THAT THE CONVERSION OF SOME OF THE LOANS TAKEN FROM LOCAL GOVERNMENT INSTITUTIONS LIMITED OFFICIAL USE

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(PROBABLY THE ICICI) COULD LEAD TO DILUTION OF THEIR PRESENT EQUITY TO LESS THAN 25 PCT AND PARTICIPATION OF INDIAN GOVERNMENT OFFICIALS ON THEIR BOARDS OF DIRECTORS. DANA EXECUTIVES RESPONDED THAT THEY HOPED THAT ANY CONVERSION OPTION EXERCISED BY LENDERS WOULD BE SOLD BACK TO THE COMPANY BUT THEY CLAIM THAT IF THIS DID NOT OCCUR THEY WOULD NOT BE DISTURBED PROVIDED THAT THE LOCAL GOVERNMENT DID NOT TRY TO BECOME THE LARGEST SINGLE EQUITY HOLDER IN THEIR CORPORATION. THEY BELIEVE THAT THE EXTENSIVE LOCAL PARTICIPATION FROM THE PRIVATE SECTOR PLUS THE TECHNOLOGY THAT THEY CAN OFFER INDIA ARE SUFFICIENT GUARDS AGAINST SUCH A DEVELOPMENT. COURTNEY UNQUOTE SAXBE

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